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ABSTRACT

This booklet introduces some of the issues involved in local government provision of schooling. It discusses four models concerning the form such provisions might take, and each model is then considered in relation to the financial and administrative practicalities involved. To this end, local government officials from metropolitan, town, and rural councils, as well as economists, educationists, and experts in local-government affairs were interviewed in 1995 and 1996. Those interviewed were asked to comment on the past situation with regard to local government finance in general and the provision of schooling in particular. Although the paper draws together research and perspectives relating to both local government and education, it is written with primarily an educational audience in mind. It opens with a brief history of local-government finance in South Africa, followed by an account of previous and existing forms of local government involvement in education. Some key considerations concerning local government provisions are suggested and four models of possible future provision are critically discussed. The paper concludes by making some general recommendations concerning local-government finance for schooling. (Contains 21 references and a list of those interviewed for the study.) (RJM)

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# LOCAL GOVERNMENT FINANCE OF SCHOOLING IN SOUTH AFRICA

## A Discussion Document

By Leon Tikly

*EPU Working Paper No. 12*
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**Education Policy Unit**
**University of Natal**
**Durban**

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# Local Government Finance of Schooling in South Africa: A Discussion Document

by Leon Tikly[1]

[1] Dr Leon Tikly, formerly of the Education Policy Unit, University of the Witwatersrand, is now in the School of Education, University of Birmingham.

*Published by the Education Policy Unit*
*University of Natal*
*Durban 4041*
*South Africa*
*Tel: (031) 260-2607*
*Fax: (031) 260-2118*
*email: sharman@mtb.und.ac.za*

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# INTRODUCTION

A recurring theme in the quest for a new, more equitable and efficient system of education in South Africa, is the search for new partnerships in the financing of schooling. This theme has been expressed in the two White Papers released since the 1994 election (DoE 1995a; 1996). In a context of relatively high existing government expenditure on education and a political commitment to fiscal discipline, the government has considered various strategies for sharing the costs of schooling with communities.

The most popular option to date has been the introduction of a system of user fees. The problem with user fees, however, is that they are difficult to administer and can have negative implications for equity (Pillay, 1988; Colclough, 1993; Tikly, 1995; Tikly and Mabogoane, forthcoming). Despite the fact that a system of user fees is already being put in place then, there is still a need to seek alternative forms of community financing that either eliminate or reduce the dependency of the school system on fees.

One option that has not received much attention to date is the possible future role of local government in the provision of schooling. The only serious consideration of local government provision of schooling in South Africa to date has been by the Education Co-ordination Service (ECS, 1994). The focus of this report was on general issues rather than specifically on issues of finance and the report was also written at a time when the future shape of local government was only just beginning to emerge. The report did, nonetheless, make some pertinent suggestions concerning the future role of local government in the provision of

schooling, some of which will be taken up below, albeit in modified form.

Besides the ECS contribution, some discussion was made in Tikly's (1995) paper of the implications for rates if user fees were to be replaced by local government revenues. Finally, occasional mention was made of local government involvement in schooling during a conference in 1995 on local/district governance of education (see Godden and Coombe, 1996). Here the major concern was the relative advantages of single as opposed to multi-purpose authorities. In particular, it was argued that in single purpose authorities, education does not have to compete for resources with other areas of local government activity. Furthermore, it was pointed out that multi-purpose authorities often lack the specific expertise required to provide educational services effectively. These arguments will also be taken up below.

On the one hand, the relative neglect of a consideration of local government provision of schooling in the literature is understandable. Local government has played only a limited part in schooling in the past, especially during the apartheid era which was characterised by a good deal of centralisation of functions such as education. On the other hand, however, many other low and middle income countries, both in Southern Africa and elsewhere, have made recourse to local government revenues as a means of mobilising community funds. In many countries, local government provision of schooling has been seen as a means of both enhancing equity within the system and decentralising responsibilities for schooling directly to communities (Tikly, 1996).

This paper introduces some of the issues involved in local government provision of schooling and critically discusses four

models concerning the form such provision might take.[1] Each model is considered in relation to the financial and administrative practicalities involved. To this end interviews were undertaken during 1995 and 1996 with local government officials from metropolitan, town and rural councils, as well as with economists, educationists and experts in local government affairs. Interviewees were asked to comment on the past situation with regard to local government finance in general and provision of schooling in particular. They were also asked to give their views concerning the nature and extent of possible future forms of provision and to indicate some of the potential financial and practical difficulties involved. A full list of interviewees is provided in the References section.

Although the paper draws together research and perspectives relating to both local government and education, it is written with primarily an educational audience in mind. The paper commences, therefore, with a brief history of local government finance in South Africa. This is followed by an account of previous and existing forms of local government involvement in education. Some key considerations concerning local government provision are then suggested and four models of possible future provision are critically discussed. The paper concludes by making some general recommendations concerning local government finance for schooling.

[1] Although the paper is written in awareness that the new constitution allows for local government provision of schooling, constitutional issues are not dealt with in any detail here. These, together with political and other issues, are the subject of papers by other researchers.

# THE STATE OF LOCAL GOVERNMENT FINANCE IN SOUTH AFRICA

## History and Background

Any discussion of the future role of local government in the provision of schooling must be seen in relation to the current state of local government finance. Much of the discussion below is based on van Reynveld's (1994) and Johnston's (1994) work on local government finance as well as from a study of the budgets of several local governments and interviews with key personnel (see References).

Prior to the 1995/6 elections, local government finance was racially structured, with large inequalities existing between black and white authorities. There were also significant differences between urban and rural areas within each racial system. The old White local authorities were essentially responsible for White, Coloured and Indian areas outside of the homelands until 1994, when Coloured and Indian areas got their own autonomous councils. The financial situation in many of the urban authorities was relatively sound although there were signs of stress near the end of the apartheid era.[2] The financial situation in some of the rural local authorities was, by way of contrast, rather tenuous, especially those with larger proportions of people classified as Coloureds (who are, on average, less well off than Whites and Indians).

[2] This was largely on account of new demands arising from amalgamation with Black local authorities and new obligations to pay VAT, car licences and Regional Service Council (RSC) levies.



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The majority of income for White local authorities came historically from the sale of electricity and water and from property rates.[3] From 1994, however, the Transitional Executive Council made it incumbent on White local authorities to set aside a third of budgeted expenditure increases for local government restructuring and for redressing backlogs in Black areas.

The Regional Services Councils (RSCs) and Joint Services Boards (JSBs) (as they were known in KwaZulu-Natal) were established from 1987 onwards to finance infrastructural investments in areas of greatest need and perform various local functions on a sub-regional basis.[4] RSCs and JSBs played a significant role in the rural areas, raising income mainly in the towns. These funds were then used for services, particularly roads, in the rural areas. All local authorities, both black and white, had representation on the councils in accordance with the value of services consumed (van Reynveld, 1994).[5] The major sources of income for RSCs and JSBs was the regional services levy (based on a percentage of a company's wage bill) and the regional establishment levy (based on a company's percentage turnover). Although the idea behind the RSCs and JSBs was to improve and maintain infrastructure, revenues were increasingly used to shore up the crisis in black local authority areas. Money raised from company payroll and turnover taxes now goes directly to the new local authorities

[3] In 1993 the sale of water and electricity accounted for about 60% of local government income whilst about 20% came from property rates. The remainder of income came from various fees and charges levied by local government. Typically about 50% of the revenue raised from the sale of electricity and water was used to purchase these commodities from the suppliers. The remainder was used for running local authority services.

[4] Apart from the situation in KwaZulu-Natal, other homelands fell outside of the areas covered by RSCs.

[5] Although the RSCs and JSBs shared common elements, there were also marked differences between these bodies in the four old provinces.

which have, outside of the metropolitan areas at least, generally assumed the boundaries of the old RSCs.

Prior to the 1970s, the administration of black townships was the responsibility of adjacent White local authorities. In the mid-1970s they were replaced by Administration Boards (subsequently known as Development Boards). The Black Local Authorities Act of 1982 provided for locally elected councils with much the same powers as White local authorities. Unlike their White counterparts, however, Black local authorities suffered from a much more limited tax base.

During the 1970s, the most important single source of revenue for township administrations was from the sale of liquor, but this source drastically declined with the privatisation of beer halls in the early 1980s. Further, before 1984 Africans were not allowed to own property outside of the bantustans and so there were no property rates levied in these areas. Housing was provided by the state and residents paid rent and service charges to the local township administration. From the mid-1980s the state began to sell off its housing stock cheaply to residents. This dramatically reduced the amount of rent received by local authorities and made them increasingly dependent on service charges. Services were generally charged on a flat rate basis. Few townships had electricity until the late 1980s and water was not metered.

The growing crisis in Black local authority finance from the early 1980s onwards had several root causes. As indicated above, there was a decline in traditional sources of income. There also existed a poor administrative structure for the collection of revenues and many authorities were extremely inefficient in the delivery of

basic services.[6] Further, where the newly formed Black local authorities wished to improve conditions in the townships, this had to be financed from increases in service charges. These factors, together with the perceived lack of political legitimacy of Black local authorities in the eyes of many residents, helped to fuel popular resentment leading to a series of rent and service charge boycotts from 1984 onwards. These, in turn, exacerbated the overall financial crisis.

Black local authorities became increasingly dependant on inter-governmental grants, along with contributions from White local authorities and RSCs. Much of the responsibility for providing basic infrastructure was also assumed by the RSCs (and, to a lesser extent, by neighbouring White local authorities). By the early 1990s, the percentage of total Black local authority income generated from residents was very small (typically less than 10%) with the vast majority coming from other sources.

The Local Government Transition Act of 1994 put in place new structures of local government. In the *pre-interim phase* the Act enabled the establishment of Transitional Metropolitan Councils (TMCs) and sub-structures in urban areas and Transitional Local Councils (TLCs) in non-metropolitan areas (see Johnston, 1994). These transitional bodies brought together existing black and white authorities into one structure. In the urban areas the TMCs assumed certain responsibilities, such as the reticulation of electricity and water, sewerage and roads, whilst the various sub-structures kept responsibility for other services.

[6] One glaring cause of administrative inefficiency was the vast difference in the size and capacity of White and Black authorities. Even by 1993, White local authorities spent about 25 times more than their black counterparts, much of this in financing a relatively sound administrative infrastructure (van Reynveld, 1994).

The 1995/6 local government elections in South Africa heralded the commencement of the *interim phase* in terms of the 1994 Act. In metropolitan areas, TMCs and their various sub-structures, along with TLCs, were formally elected according to demarcations negotiated in the *pre-interim phase*. It is envisaged that these structures will remain in place until the end of the transitionary period in South Africa, i.e. for another three years when the *final phase* of the Act will come into force.

**The Current Situation**

In financial terms the advent of the transitional councils has meant the amalgamation of the budgets and accounts of the old White and Black local authorities within new non-racial demarcations. It has also meant the redeployment of existing personnel from the old authorities into the emerging bureaucracies. It is still too early to assess the financial viability and administrative capacity of the new authorities with great certainty. It is inevitable that a process of change on the scale of local government transformation in South Africa will incur 'extraordinary' costs and will experience administrative teething problems. To this extent then, discussion of the current situation must still be regarded, to a certain degree at least, as speculative.

The income and expenditure of all local governments in South Africa for 1995/6 is given below:

Table 1: Operating income for local government in SA 1995/6[7]

| **Source** | **Amount (Rm)** | **%** |
|---|---|---|
| Property rates | 5,142 | 18.6 |
| Site rent | 112 | 0.4 |
| Sale of electricity | 11,302 | 41.0 |
| Sale of water | 3,024 | 11.0 |
| Sewerage/sanitation charges | 1,564 | 5.7 |
| Refuse removal charges | 868 | 3.5 |
| Subsidies | 736 | 2.7 |
| Inter-governmental transfers | 750 | 2.7 |
| Other | 4,085 | 14.8 |
| **Total** | **27,584** | |

Table 2: Operating expenditure for local government in SA 1995/6

| **Expenditure** | **Amount (Rm)** | **%** |
|---|---|---|
| Salaries | 9,328 | 26.7 |
| Electricity bulk purchases | 6,424 | 18.4 |
| Water bulk purchases | 1,391 | 4.0 |
| Sewerage payments | 460 | 1.3 |
| Others e.g. libraries, ambulance services | 9,268 | 26.5 |
| Repairs and maintenance | 2,539 | 7.3 |
| Capital charges e.g. interest on loans | 4,512 | 12.9 |
| Fixed assets | 283 | 0.8 |
| Special funds | 698 | 2.0 |
| **Total** | **34,913** | |

[7] The figures given in tables one to four were provided by Mr Joe Lawlor of the Port Elizabeth City Treasury Department.

The above tables give some indication of local government operational[8] income and expenditure in South Africa as a whole. It can be seen that the major source of income is from the sale of electricity and not from the levying of domestic rates, as is sometimes assumed. The sale of water and the levying of various fees and charges for council facilities and for licensing purposes (the 'other' category in table 1) also provide significant sources of revenue.

Purchasing electricity and water also account for a large part of local government expenditure (roughly half of the money is raised from the sale of these items). General recurrent expenditure such as repairs and maintenance of council property and the day-to-day running costs of council administration and services e.g. fire, ambulance, traffic, tourism, museums, libraries, etc., (the 'other' category in table 2) also absorb significant funds. The 'capital charges' category represents payment of interest on capital loans. Other contributions to the capital budget include investment in fixed assets and those special funds that are earmarked for capital projects.

Besides operating income and expenditure local government also has a capital budget of about R9,4 billion. This budget is used for long term investment in infrastructure such as roads, buildings and 'permanent' equipment. As indicated above and as can be seen from the table below, only a relatively small percentage of this money comes from the operating budget. The remainder comes from loans, payroll and turnover taxes (the old RSC and JMB levies), and various earmarked government grants and

[8] The 'operational budget' refers to the budget for the day-to-day running of council services and administration. It is a separate budget from the 'capital budget', which is concerned with longer term investments and fixed assets such as buildings, roads, sewerage and water pipes, etc.

subsidies including money from the RDP. Turning to capital expenditure, it can be seen that the largest share is taken up by 'basic' local government projects[9] that are largely concerned with local government services (such as housing, recreation, fire, ambulance, libraries, etc.). The rest, including RDP money, is used on projects specified by legislation or by central government.

Table 3: Capital budget for local government in SA: sources of revenue 1995/6

| **Source** | **Amount (Rm)** | % |
|---|---|---|
| Loans | 5,614 | 59.5 |
| Contributions from operational budget | 652 | 6.9 |
| Payroll and turnover taxes | 812 | 8.6 |
| RDP funds | 1,533 | 16.2 |
| Grants and subsidies | 828 | 8.8 |
| **Total** | **9,439** | |

Table 4: Capital budget for local government in SA: expenditure 1995/6

| **Expenditure** | **Amount (Rm)** | % |
|---|---|---|
| Basic | 4,417 | 46.8 |
| Other | 2,340 | 24.8 |
| RDP funds | 1,533 | 16.2 |
| Other state | 1,148 | 12.1 |
| **Total** | **9,439** | |

[9] That is capital projects operated at the discretion of local governments.

It can be calculated from the above that the local government operating budget actually operated at a deficit of R7,329 million last year. This can largely be explained by the writing off of debts for rent and services and by growing investment from the operational budget to the capital budget and basic infrastructure for the delivery of services. Interviews with local government treasury officials suggest that the financial burden associated with writing off debts and extending the provision of basic infrastructure, goods and services into historically black areas will continue to absorb very significant resources for the foreseeable future (for at least the next 5 - 10 years).

In the present context of fiscal discipline it is also unlikely that government grants and subsidies for local government will be increased in the near future and this will continue to put a strain on a fairly narrow local tax base. At present, local government is heavily reliant on electricity and water surpluses and if, as is sometimes suggested, responsibility for electricity distribution is removed from local government, then this would have very serious consequences for local government finance. The other major sources of local government income, property, payroll and turnover taxes are already relatively high and the opinion of most interviewees is that they cannot reasonably be expected to go much higher (see also BusinessMap SA, 1996).

The above account of local government finance does not bode particularly well for future local government provision of schooling. It would appear that existing sources of revenue are already stretched and that the assumption of much larger additional responsibilities at this stage would be undesirable. Any significant increases in local government responsibility for schooling in the short to medium term would, therefore, have to be financed mainly by central government, i.e. a part of the

existing budget for education would have to be diverted to local government for this purpose, in the form of intergovernmental grants.

There is, however, scope in the longer term for local governments to increase their financial contributions to schooling. At present only a relatively small proportion of residents pay property taxes on account of past apartheid policies. It is estimated that the current system of rating could be extended to cover the historically black areas within the next 5 - 10 years.[10] This would provide substantial additional sources of local income. It is also unclear until there is finality on the new Constitution, what form of local taxation will be available to rural authorities.[11] Besides income from taxes on companies, these authorities are currently only able to raise money from limited licensing activities (such as dog licences). It is possible that rural authorities will be enabled to raise land and/or property taxes in the future. Further, the costs of developing infrastructure in historically black areas will drop off eventually although it is difficult to say exactly when.

It should be remembered that the above discussion is very general in nature. Whilst shedding light on the financial capacity of local government as a whole in South Africa, the discussion, to some extent, glosses over the large differences in financial capacity between *different kinds* of local government, i.e. metropolitan,

[10] This view was expressed in interviews with treasury officials from Johannesburg Metropolitan Council and by David Solomon - a local government economist. Whilst the process of putting a rateable value on property in historically black areas could take only two years, it is envisaged that the transfer of ownership of council property to families in these areas could take significantly longer.

[11] Shortly after this paper was written the new Constitution was finalised and is the subject of a paper by other researchers.

town and rural authorities.[12] It will be argued that these differences should be taken into account when assessing a possible future role for local government in the provision of schooling. This is especially relevant for provinces like KwaZulu/Natal where the highest population density is in rural areas.

Finally, there are large differences in the administrative capacities demonstrated by different kinds of local authority that are also important to bear in mind. These differences are, to some extent, reflected in the relative amounts paid in salaries by the three different kinds of council.[13] It was also clear from the interviews conducted with local government officials, that current administrative capacity reflects the uneven development of capacity under apartheid. It is difficult to ascertain during this transitionary period, however, what the exact picture is with respect to human resources and administrative infrastructure in the new fledgling authorities and more research is needed in this regard.

[12] In the council budgets studied for the purposes of this paper, for example, it was found that Johannesburg Metropolitan Council had a total income of about R3,563 million compared to R815 million for Port Elizabeth Town Council, R63 million for Mmabatho Town Council and R22 million for Central District Council in the North West Province. (The figures for Johannesburg and Central District Council are for 1996/7, whilst those for Port Elizabeth and Mmabatho are 1994/5 and 1995/6 respectively, although this should not make a tremendous amount of difference for the purposes of a rough comparison).

[13] Johannesburg Metropolitan Council spent R854 million on salaries compared to R35 million in Mmabatho and R2,5 million in North West's Central District Council.

# HISTORY AND BACKGROUND OF THE PROVISION OF FINANCE FOR SCHOOLING BY LOCAL GOVERNMENT IN SOUTH AFRICA

Local government provision of schooling in South Africa can best be characterised as limited, uneven and, where it has existed, often *ad hoc*. It has also been closely tied to the racially based systems of local government that have been in place until very recently. There have also been differences in provision between rural and urban areas. A general list of previous forms of local government support for schooling is given below:

1. *Exemption/relief from paying rates*. Schools in formerly White areas have, in the past, been exempted from paying rates (or only paid a fraction of the full amount). Local governments were, however, partially compensated in the form of grants from central government. Always a source of contention between central and local government, rate-paying for government institutions was reintroduced in 1985 (Craythorne, 1993). However, private schools remain exempt from paying rates. Property rates did not exist in African, Indian and Coloured areas in 'white' South Africa. Some relief from rates was given to government schools in urban areas in some of the former homelands, such as Bophuthatswana.

2. *Reduction in service charges*. Some local authorities have sold water and electricity to schools at cost price. This has occurred particularly in White, Indian and Coloured areas and in some of the former bantustans.



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3. *Building funds*. The mass expansion of Bantu education during the 1950s and 1960s was partly made possible through the contributions made by communities to various building funds in rural and urban areas, including many of the former Bantustans. Money raised either by Black Local Authorities or by tribal authorities was supplemented by funds from central government, often on a 'rand for rand' basis, although in more recent years the proportion paid by government has steadily dwindled. In some of the urban areas in the former homelands, the town councils levied special building funds on top of existing property taxes (although fees were modest).

4. *School maintenance*. Local authorities in White, Indian and Coloured urban areas, together with some rural district councils, indirectly relieved the financial burden on schools through helping to maintain sports fields, gardens and sometimes buildings. This often occurred on an *ad hoc* basis and the degree of support appears to have varied tremendously between areas.

5. *School transport*. The same categories of local councils as mentioned above, have also sometimes provided transport for school outings, etc., again, often on an *ad hoc* basis. In some urban White, Indian and Coloured areas, local authorities also subsidised transport for school children travelling to and from school.

6. *Provision of sports and recreational facilities*. Some local authorities, particularly in more affluent urban areas, have also made sports and recreational facilities available for use to schools.

## OPTIONS FOR FUTURE LOCAL GOVERNMENT FINANCE FOR SCHOOLING

Before turning to a consideration of different models of local government provision of schooling, it is important to list the various possible functions for which local governments might assume responsibility. These functions have been derived from a variety of sources. Some have been taken from the above discussion of past local government provision of schooling in South Africa. Others have been taken from a consideration of the situation in other countries (for example, see Tikly, 1996; Karlsson, 1996). Finally, some have been adapted from the report on possible future forms of local government provision prepared by the Education Co-ordination Service (1994).

Before proceeding to a discussion of each model it is useful to briefly explain the meaning of the various functions indicated.

Table 5: Possible future functions for local government in the provision of schooling

| **Function** | |
|---|---|
| Payment of salaries | Local government would pay the salaries of all teaching and non-teaching personnel. |
| Learning materials | Local government would supply all necessary text books, stationery etc. and would make its existing library services available to schools. |
| School buildings | Local government would build new schools and classrooms. |
| Building funds | Local government would leave responsibility for building schools to the provincial education departments but would make a contribution to provincial school building funds from the local |



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| | |
|---|---|
| | tax base. |
| Maintenance and repair | Local government would maintain and repair school buildings and grounds. |
| Service charges relief/exemption | This could mean the local government either subsidising the cost of water and electricity, e.g. selling it to schools at cost price, or completely exempting schools from these service charges. |
| Rates relief/exemption | Local government would either give schools a higher rates rebate or exempt them altogether from paying property taxes. |
| School transport | Local government would provide subsidised transport services for pupils travelling to and from school and/or providing transportation for school trips and outings etc. |
| School feeding | Local government would take over the running of the government's school feeding programme. |
| Sports and recreation | Local government would make its sports and recreation facilities available to schools. |

Based on the above range of functions, it is possible to construct a variety of possible models of future local government provision. Four will be presented in turn.

**Model 1: A 'Maximalist' Approach**

The local authority would have responsibility for virtually all of the aspects listed above. Countries that exemplify a maximalist approach include England, Scotland and Chile. Responsibility for more professional matters such as curriculum, inspection, evaluation, psychological services and support for learners with special needs, etc., would remain with the Department of Education.

**Model 2: An 'Intermediate' Approach**

Local government would perform most of the functions listed above with the exception of teachers' salaries and the provision of learning materials. Local government would be responsible for all other operational and capital costs. Municipalities in Zimbabwe currently operate along these lines.

**Model 3: A 'Minimalist' Approach**

Local government would only undertake those limited responsibilities that have been undertaken by local authorities in the past in South Africa, although extended somewhat, to cover all areas and not just the group areas with which they were associated previously.

**Model 4: No responsibility**

Here local authorities would not have any responsibility whatsoever for schooling, even in those areas where they had responsibility at some time in the past. This is partially the current situation. (Indeed it would be true to say that the current situation was a mix of models 3 and 4).

The table below summarises the four models:

Table 6: Four potential models of local government provision of schooling

| Function | Model 1 | Model 2 | Model 3 | Model 4 |
|---|---|---|---|---|
| Salaries | • | | | |
| Learning materials | • | | | |
| School buildings | • | • | | |
| Building funds | | | • | |
| Maintenance and repairs | • | • | | |
| Services relief/ exemption | • | • | • | |
| Rates relief/exemption | • | • | • | |
| School transport | • | • | • | |
| School feeding | • | • | | |
| Sports and recreation | • | • | • | |
| Media | • | • | • | |

## Costing the models

It is not possible to provide a precise figure concerning the cost of each model due to lack of sufficient information.[14] It is possible,

[14] Firstly, the available information concerning the budget for schooling is often not given in sufficient detail, making it difficult to estimate the amounts of money allocated to many of the functions listed above. Secondly, the way that money is allocated to different functions also varies from province to province making it difficult to get an overall picture.Thirdly, the amount of money charged to schools for items such as rates and services varies between local authorities which also makes generalisations difficult. Fourthly, many local authorities are currently in the process of providing basic services, such as water and electricity, to many schools, making it difficult to estimate costs. Finally, it is impossible to determine at this stage what the potential savings might be for some functions such as repair and maintenance of buildings and provision of school transport, as any such calculations would have to be based on a more detailed study of existing capacity within individual local authorities.

however, to make some general comments concerning the cost of the models based on the information that is available.

If local government were to assume responsibility for schooling on the scale envisaged in model 1 then this would consume virtually the whole of the provincial allocations for schooling which in 1995/6 amounted to about R28,5 billion. It should be noted, however, that the model also implies additional costs which are not covered by the provincial allocations. The money allocated in 1995 has been barely sufficient to cover recurrent expenditures and only a very small proportion has been allocated to capital projects.

Minister Bengu has recently indicated that an additional sum of R8,5 billion will be needed for classroom construction to meet the increase in learner enrolment over the next three years (SAIRR, 1996). This would mean, on average, an additional expenditure of R2,8 billion per year for the next three years. To this sum should also be added the money allocated to the *Culture of Learning* programmes for the renovation and repair of schools (R100 million) and the R500 million spent on the school feeding programme (Govender et al, 1996). If all these costs are taken into account then *Model 1 would cost not less than R32 billion.*

The calculation made above is based on the assumption that some of the functions that would be assumed by local government would not require significant additional resources, at least initially. Thus, although it is difficult to quantify the costs of providing relief from rate and service charges, interviews with treasury officials would suggest that the cost of subsidising school transport and the opening up of local government recreational and media facilitates to schools, would not necessarily put undue strain on existing resources and that any additional moneys

required could be funded from rates. The situation would change, however, if the provision of services such as school transport were to imply a sizeable expansion of the transport stock and the hiring of additional drivers, mechanics and other personnel. The implication of this assumption for Model 2 as well as Model 1, then, is that the significant additional cost would be that of erecting and repairing school buildings and operating the school feeding scheme. Based on the figures supplied above, *Model 2 would cost no less than R3,4 billion.*

Extending the logic of the above argument, the major additional costs implied in model 3 would be those associated with a building fund. There are several ways of levying money for building funds. The most common ways are either as a small percentage of property rates or as a 'fixed' tax levied from every adult. It is assumed that in South Africa the former would apply because of the onerous administrative costs of introducing a completely new form of tax collection (which would be implied by the latter). Based on this assumption then, if an additional 1% were added to property rates then the *contribution to building funds nationally would be in the region of about R0,5 billion. A 2% additional levy would raise R1 billion, 3% would raise R1,5 billion, etc.* These figures would rise with the number of properties being assigned a rateable value. Obviously, *Model 4 would require no additional funds.*

## THE MODELS CONSIDERED

In this section, the four models are discussed in relation to the criteria of *affordability*, *sustainability*, *efficiency* and *equity*. An attempt is also made to explain the significance of each of these criteria for local government finance for schooling and to suggest ways in which local government provision could be improved in relation to each.

*Affordability*

If local government were to assume responsibility for particular aspects of schooling then it should have the necessary resources to do so. New commitments can be met in a variety of ways: a) from the existing local revenue base; b) by empowering local government to raise extra funds for schooling (e.g. in the form of a new levy or fee); c) by transferring funds to local government from central or provincial government (e.g. in the form of an ear-marked grant).

From the discussion of the state of local government finances given earlier in the paper, it is fair to assume that no significant additional revenue can be made available to schooling from local government sources at this stage. A brief consideration of the costs involved support this view. The R32 billion involved with Model 1 is not much less than the entire income for local government from all sources in 1995/6, which amounted to R37 billion. If the figure were broken down into operational and capital elements then the costs of Model 1 would consume 3% more than the entire existing operational budget and 36% of the capital budget. In the case of Model 2, the effect on the



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operational budget would not be significant but the capital budget would be affected by about the same amount as in Model 1.

This basically means that Models 1 and 2 above would have to be funded in the form of inter-governmental grants from central government to local government. It would also mean additional costs (at least initially) to fund capacity building programmes amongst local government officials and to hire the additional staff required. It would only be in the longer term that local government sources would be able to make significant contributions to the overall costs of the models. This would defeat one of the main economic reasons for transferring responsibility for schooling in the first place, namely to share costs of schooling with communities.

It has been suggested above, however, that Model 3 would be affordable provided it did not initially involve a massive expansion of local government infrastructure. Here it is necessary to differentiate between different types of local government and to recognise that the existing facilities in a large metropolis like Johannesburg or Durban, or even in towns like, say, Port Elizabeth or Mmabatho are much more likely to be able to support the functions specified for Model 3 than would most rural District Councils.

*Sustainability*

Closely related to the above is the need for new responsibilities to be affordable, not only in the short term but in the future as well. The experiences of other, less developed countries, should serve as a warning here. In Zimbabwe, for example, the rural district councils have lacked both the financial resources and management capabilities to sustain their commitments to

schooling, which has had serious implications for educational quality. By way of contrast, in the urban areas such as Harare and Bulawayo, municipal governments have been quite successful in funding new school buildings from their own revenues on an on-going basis (Pasteur, 1992).

Although it has been suggested that Model 3 might be the only affordable model in the short term (and even here only for certain local authorities) this situation might well change over time. It might, for example, be possible to increase local government responsibilities for schooling once the immediate backlog in classrooms has been addressed. This is what happened in the case of primary education in Zimbabwe.[15] It was also argued above that the financial capacity of local government in South Africa is likely to increase once the backlog in the provision of basic infrastructure and services in the historically black areas has been addressed and once the local tax base has been widened sufficiently.

One possibility then, would be to allow selected local authorities to gradually assume greater responsibility for schooling once they have demonstrated the necessary financial and administrative capacity to do so. If specific local governments proved capable of assuming the functions involved in Model 3, for example, they could then be assigned greater powers, such as those involved in Model 2. The powers assigned could either be in the form of a 'package' or they could be granted on an individual basis. An analogy to this type of process would be the suggestion in the Hunter Report and second White Paper (DoE, 1995b; 1996) that

[15] In Zimbabwe, municipalities were given responsibility for building and running primary schools after the initial backlog in primary provision had been addressed. This allowed the central government to focus resources on building secondary schools (see Tikly, 1996).

school governing bodies should be assigned 'negotiated' powers once they had proved to be successful at implementing the 'basic' functions.

*Efficiency*

A key consideration, as far as the introduction of new forms of local government finance for schooling is concerned, is efficiency. There are three dimensions to local government efficiency that need to be taken into account. Firstly, there is the efficiency with which local governments raise revenues for education. Inefficiency in this area would have serious implications for affordability and sustainability, as indeed has happened with some local councils in Zimbabwe, India and elsewhere. The track record of local government in South Africa has also been mixed in this respect although it is too early to judge how efficient the new local authorities will be.

The second aspect of efficiency involves the management of resources. Inefficient and wasteful financial management have sometimes contributed to the limited success of local government in other developing countries (Tikly, 1996). Some tribal and other local authorities in South Africa have also been guilty of inefficiency and corruption in the administration of building and other funds for schooling in the past (Tikly, 1995). At issue here is not just capacity in financial management however. Local governments in South Africa also lack expertise in issues relating specifically to the management and administration of education. This has led some commentators to argue against local government being given substantial responsibilities for schooling (ECS, 1994).

The third aspect of efficiency is to do with economies of scale in the provision of services. Where capacity already exists in certain areas such as building maintenance, the provision of recreational facilities or transport, then this can lead to efficiency savings, as resources within a locality can be used for a variety of local government functions and unnecessary duplication of resources can be avoided (see also Karlsson, 1996).

The arguments presented above would also seem to support the case made earlier for the granting of limited functions to larger urban authorities (as in Model 3), with no responsibilities being given to other authorities at this stage (Model 4). On the basis of the information available it would seem that only the larger cities and towns have the tax collecting infrastructure and administrative capacity to take on additional responsibilities for schooling. The metropolitan areas are also in a position to be able to operate economies of scale. There is a danger, however, of making generalisations. From the point of view of efficiency considerations, more specific research is needed into the situation in individual authorities.

In trying to improve the overall efficiency of local government in South Africa, however, there are valuable lessons to be learnt both from South Africa's own past and from the experiences of other low and middle income countries. Other countries have engaged with the problem of increasing capacity for financial management at the local level, for example, through the development of a culture of careful auditing and accountability. Where lack of capacity exists there is a case for investment in the development of human resources. Where local government has a substantial responsibility for schooling it is also possible to link central government grants for local government to proxies of efficiency, such as enrolments in state schools, or to incentives. This is

currently the case in Chile. If responsibilities for schooling are to be assumed by local government then this would require the development of capacity in educational matters if resources are to be allocated in a way that promotes good practice.

Further, if local government were to be given greater responsibility for schooling then attention would have to be given to the articulation between local governments and the administrative structures of the provincial education departments, as well as to the relationship between local government and school governing bodies. The experiences of other countries would suggest that it is important to establish a clear distinction between the responsibilities of each (Tikly, 1996). It is also important, for education planning and co-ordination to establish common boundaries between local governments and local education districts (see Karlsson, 1996). It should be noted that this is not currently the case in South Africa and serious consideration needs to be given to the possibility of redrawing the boundaries of educational districts so that they coincide with those of local government.

*Equity*

It is useful to distinguish between four broad issues in relation to equity. The first concerns equity in the way in which schooling is financed. As was mentioned in the introduction, the government is currently committed to sharing the costs of schooling with communities by getting parents, particularly in historically privileged schools, to pay fees. It is hoped that this will release government funds to be used in less well resourced schools. It is also envisaged that parents in every school will be encouraged to contribute to voluntary school funds (DoE, 1996).

The problem with user fees in historically privileged schools, however, is that enrolment will be restrictive for those unable to afford the fees. Furthermore, schools in more affluent areas will be able to raise more funds than those in less affluent areas and will therefore be able to afford better facilities. If, however, local government were to assume responsibility for some aspects of schooling, this could reduce the dependency of the school system on parental contributions. Even in the case of a 'minimalist' approach such as Model 3, local government would assume responsibility for many items currently paid for through fees (such as services charges, additional building costs and the provision of school transport, sports and recreational facilities).

In terms of equity considerations, this would have two beneficial effects. Firstly, by reducing school fees the access of less well-off pupils to historically privileged schools would be increased. Access to all schools would also be improved by the provision of subsidised transport facilities to and from school.

Secondly, the overall cost of many of the items listed above would be spread across the local population as a whole rather than fall on parents alone. Although it has been argued that contributions from the local revenue base would have to be modest, at least in the short term, even small increases in local taxes could go some way to alleviating the burden of fees. This was demonstrated above, for example, in relation to building funds. If these increases were to come from property rates and payroll and turnover taxes, then there would be the additional benefit of replacing user fees with a system of taxation based on the ability of individuals and companies to pay for them.[16]

[16] Unlike user fees, which are generally levied at a fixed rate, property, payroll and turnover taxes are all levied in proportion to some indicator of wealth,

Local governments would also be able to channel resources to different schools within a locality on the basis of need. In the context of new non-racial local government, this would provide one mechanism for redress. Local governments would be closer to the schools that were being financed than provincial administrations and so, would be in a better position to ascertain the needs of individual institutions in relation to the locality in which they are situated. This is confirmed in Karlsson's (1996) study. Targeting resources to schools in less affluent areas might also have the additional benefit of encouraging and promoting development within those areas.[17]

A potentially negative implication of local government finance for schooling, however, is the possibility that if local governments were assigned greater responsibility for schooling then inequalities between affluent and less affluent localities would be exacerbated. This would be because wealthier localities would be able to contribute greater resources to the schools in their area. This danger would be inherent in Models 1, 2 and 3. There are ways of avoiding this problem though. For example, central government could support less affluent localities through increased grants. Alternatively, wealthier local governments could contribute to a common pool which would be accessed by less affluent localities, as is the case in Chile (Tikly, 1996).

whether it be the value of property owned (as in property taxes) or the relative prosperity of a business enterprise (payroll and turnover taxes).

[17]This is one basis for 'magnet schools' in the United States and parts of the United Kingdom. The basic idea is that the general desirability of an area, both for local residents and for business, can be increased by improving the quality of public services located there.

## CONCLUSION AND RECOMMENDATIONS

It has been argued above that there is potential for local government to play a future role in the provision of schooling, but that local government capacity for assuming greater responsibility is both limited and uneven, with significant variations between urban and rural areas. Furthermore, there is no history of substantial local government provision of schooling in South Africa. In the light of the above findings the following recommendations are made:

*Recommendation 1*
A 'minimalist' set of responsibilities (such as that included in Model 3 above) should be devolved, in the first instance, to those local governments that demonstrate the necessary financial and administrative capacity to manage them. (Initially, this is likely to be the municipalities and some of the larger town councils although the same responsibilities could be extended to other councils at a later date).

*Recommendation 2*
Local governments can assume further functions over education (such as those included in Models 1 and 2) on a negotiated basis when they can demonstrate the capacity to do so. (This is likely to be in the longer term i.e. within the next five to ten years).

*Recommendation 3*
There is a need for investment in capacity building and training programmes at local level to improve efficiency and to foster understanding of educational issues and concerns.

*Recommendation 4*

Mechanisms need to be put in place that will ensure an equitable distribution of resources within and between localities. Some suggestions to this effect have been made above.

*Recommendation 5*

There needs to be a clear distinction between the functions of local government and those of provincial education departments.

*Recommendation 6*

Serious consideration needs to be given to the redrawing of education district boundaries in many provinces to make them compatible with local government ones.

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| **List of Interviewees** | **Date** |
|---|---|
| Nazir Carrim (University of the Witwatersrand) | Feb 1995 |
| Grant Easton (Johannesburg City Treasury) | Feb 1995 |
| Karen Johnston (Institute for Local Government Studies, Cape Town) | Feb 1995 |

| | |
|---|---|
| Joe Lawlor (Port Elizabeth City Treasury) | Feb 1995 |
| Pundy Pillay (Education Policy Unit, University of the Western Cape) | Feb 1995 |
| Callie Schutte (Bophirima District Council, North West Province) | June 1996 |
| David Solomon (University of the Witwatersrand) | Feb 1995 |
| Gert van der Walt (Central District Council, North West Province) | June 1996 |
| Peter Waugh (Mmabatho Transitional Local Council) | June 1996 |
| Andries van Zyl (Johannesburg City Treasury) | Feb 1995 |